ISSN: 2414-1895 DOI: 10.6919/ICJE.202011_6(11).0049

Report on Critical Analysis on Operation Management for McDonalds

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Abstract

In this report we will evaluate McDonald's operations management and its current gaps in operational strategies in order to develop recommendation for them. For this, analysis like Hill's model, SWOT analysis and six service concept such as quality, price, flexibility, safety, speed and innovation will support us with information from various resources. Limitation of this report is that there is a lot of information about general ideas of McDonalds, but writer will try to focus on more certain data that relates to operation gaps and order winner and qualifiers of McDonalds.

Keywords

Operations, Management, Analysis, Quality.

1. Introduction

Operations of every company lays under planning, scheduling and controlling current activities in order to reach its short term and long-term goal: making products and good marketable. Operational managers focus on effective planning and controlling the production via employment of concepts such as quality management, risk management, accounting and management system, engineering and production management (Lewis and Slack, 2014). In the process of operations management there is involvement of production creation, development and distribution. In McDonalds, as its main operations strategy is franchising, it is also important to control inventory, supply chain management, purchasing management and overall logistics which can be accomplished under effective and efficient processes (Heizer and Render, 2011). In this report we will evaluate McDonald's operations management and its current gaps in operational strategies in order to develop recommendation for them. For this, analysis like Hill's model, SWOT analysis and six service concept such as quality, price, flexibility, safety, speed and innovation will support us with information from various resources. Limitation of this report is that there is a lot of information about general ideas of McDonalds, but writer will try to focus on more certain data that relates to operation gaps and order winner and qualifiers of McDonalds.

1.1 Company Background

As many knows, McDonalds is considered as one of the global market leaders and the most popular company in the fast food industry. As its name suggests, McDonalds is founded by brothers McDonalds – Dick and Mac in California, U.S. in the year of 1940. Initially, its main vision and mission was fast serving of food (burgers) for customers in rush or drive thru. Its current main strategy was further developed by the Ray Kroc who saw huge opportunity behind this McDonald's main idea of serving fast foods and created idea of franchising it which eventually lead company to grow and serve to 69 million clients per day. It has currently over 36 thousand restaurants chains worldwide.

In Malaysia, monthly customers of McDonalds estimate about 13.5 million and considered as the largest fast food chain company in the country (McDonalds.com.my, 2020). They have over 260

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restaurants and over 12 thousand employees nationwide. Mission of the company is to become the best place for customer when it comes to eating out by providing service idea around "Simple Easy Enjoyment" at every visit.

1.2 Current operational strategies of McDonalds

Operations strategy plays a very vital role in gaining organisational goals, and by employing these, McDonalds maintains and controls all operations in active mode.

In current times, McDonalds changed its traditional inventory management strategy in order to avoid additional costs and making things faster (Patton et al, 2011). They employed new strategies such as Just-In-Time (JIT) in order to control flow of food processing in the multiple stages of production. It supports organisations with capability of acquiring raw materials or goods in only cases when they have been used in certain stages of production. This type of operations strategy is very helpful to company like McDonalds in savings for the cost of production by pull strategy implementation as they are one of the most globally expanded companies in the world (hbr.org, 2019).

Cost leadership enables McDonalds to be market leaders by pricing products. According to Porter's model, by minimizing the costs they can offer lower prices to customers.

As a franchisor, McDonald's primary business is to sell the right to operate its brand. It gets its money from royalties and rent, which are paid as a percentage of sales. While the company certainly wants to sell more burgers, fries and breakfast sandwiches, they are just a means to an end.

McDonald, while aiming at creating standard food items that taste the same across the whole world realises that standardisation brings cost savings. The company however acknowledges that the ability to adapt to an environment ensures success (Vignali, 2001). McDonald adapted its product because of religious laws and customs in some countries. For example, in Israel the company avoided dairy products and beef in the case of Hindus in India and also pork in the case of Muslims (Membe and Doriza Loukakou, 2012)

1.3 Competitive advantage of McDonalds in Malaysia

With the boom experienced in the fast food market, McDonald's has developed a strategic plan which will enable it to be at the top of their competitors by selling their goods at affordable and friendly price, providing more healthy meals options for their consumers and great and quality services for their customers. McDonald's competitiveness is from different aspects including pricing, quality, employee training and management.

Consumers have confidence on the products of McDonald's due to their nature of using tested and trusted brands that families buy and use in local grocery shops and their only competitive advantage is that McDonald's shopping cart is usually bigger (Santos, 2010). McDonald's restaurants operate in a competitive and a challenging environment and they achieve their competitive edge by providing customized products and services. Without strategies, ineffective competitors cannot withstand the competition of the market. To maintain their competitiveness, McDonald's employ a competitive strategy that enable them to compete in various aspects, for instance, speediness of their services, meeting nutrition demand and meeting of customer satisfaction as explained below.

1.4 Order Winners & Order Qualifiers

Macdonald is one of the rare organization that succeed to balance between its operation strategic and customer demands, MacDonald combined order-winning and qualifying factors, in terms of order-winning which refer to the "customer as key reason of purchasing the product or service" (Slack, Chambers & Johnston, pp 69), MacDonald as we clarified previously its ability to be flexible for any changes based on the host county culture, in terms of the qualifying factors which refer to that "operation performance has to be above a particular level just to be consider by the customer" (Slack, Chambers & Johnston, pp 69), MacDonald paid attention to the quality aspect, and strive to make all its brunches standardized, therefore MacDonald built hamburger university to teach the franchisers

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how to be on the standard. Therefore, MacDonald operation process aligned with the strategic objectives successfully.

McDonalds SWOT

STRENGTHS

1. Ranks very high on the Fortune Magazine's food service companies that are most admired list.
2. One of the best brand recognition in the world, the golden arches and Ronald McDonald.
3. Global operations all over the world.
4. Cultural diversity in the foods that are provided based on location of the restaurant.
5. Excellent locations in theme parks, airports, Wal-Mart stores, and along most well traveled roads.
6. Efficient operating guidelines in the assembly line fashion.
7. Food safety guidelines are strictly adhered to.

WEAKNESSES

1. Failing pizza test market thus limiting their ability to complete with fast food pizza providers.
2. Training costs are elevated due to high turnover.
3. Very minimal concentration on providing organic foods.
4. Large fluctuations in their net and operating profits making impacts on the investors.
5. Not much variation in seasonal products that are offered.
6. Quality concerns due to franchised operations.
7. Focus on burgers and grease fried foods and not on healthier options for their customers.

OPPURTUNITIES

1. Opening more joint ventures with several different retailers.
2. Being more responsive to the social changes to healthier options.
3. Advertising the capabilities of Wifi internet services in the branches.
4. Expanding on the advertising in regards to being more socially responsible in the environment.
5. Expansions of business into newly developed parts of the world.
6. Open products up to allergen free options such as peanut free and gluten free foods.
7. Continue to venture into more enticing beverage choices.

THREATS

1. Their marketing strategies that entice people from small children all the way to adults and the criticism that they take because of it.
2. Lawsuits for offering unhealthy foods that have alleged addictive additives.
3. Contamination risks that include the threat of e-coli containments.
4. The vast amount of eat in fast food restaurants that are open as competition.
5. Social changes to a more balanced meal including fruits and vegetables in servings of five per day.
6. Focus on healthier dieting by consumers.
7. Down turn in economy affecting the ability to eat out as much.

2. Internal and Internal Customers of McDonalds

McDonald's is a worldwide restaurant chain. McDonald's is a very large business with large amounts of stakeholders internal and external. Stakeholders in a business influence a business positively and sometimes negatively.

2.1 Internal Stakeholder - Employees

Employees are important to McDonald's because they serve customers the products, they will have to be good a communication skills so that customers enjoy talking to the employees, customers would have a more likely chance to come back if they receive friendly customer service. Employees interest

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are to work there hardest but also get the right amount of pay for the work they do including overtime. Another interest is that the restaurants is in good clean condition to work in (Weebly.com, 2020).

2.2 Internal Stakeholder -Managers

Managers are important to McDonald's, they are employed to keep the staff organised and controls the delivery's and customer problems. Managers are also there to keep staff informed on timetable changes or general information about the store. McDonald's managers have similar interests to employees they are interested in getting paid the right amount of money for the time worked including overtime. Managers have an interest in keeping the stakeholders happy also because they get more money when the profits go up so they would be interested in the sales McDonald's make (Weebly.com, 2020).

2.3 External Stakeholders - Community

McDonald's have to keep in mind the effects on the community because they are important to giving back feedback to McDonald's so they can improve their business to meet the needs of the community. The community is interested in the developments going on in the area for example if they was to develop a store then it would cause traffic and noise pollution which would make customers or the community complain. They are also interested in new offers. (Weebly.com, 2020).

2.4 External Stakeholders - Suppliers

Suppliers are important to any business because if they had no suppliers then there would be no materials to produce the products. They are important to McDonald that they pick the right place to get there materials. The suppliers interests are how much materials McDonald's buy of them to gain a profit for there own business also to give the a good reputation because a worldwide business buy there products from them. (Weebly.com, 2020).

2.5 Critical Analysis of Operations Objective and Process

McDonald’s has set its performance objectives in a way that they help the business maintain its position as the global leader of fast food business. To meet its objectives the restaurant is divided into various departments each with a specific function to play in the process of meeting the set goals. There are several key performance objectives which the restaurant rely on ensuring that it meets the daily needs of its customers.

Speed refers to the time taken for a response to be obtained. Speed is important because it helps to respond quickly to customers thereby enabling them obtained the service or product they ordered. The speed of serving customers can determine whether or not they will return to the business again. Over the years, McDonald’s has perfected the ‘drive-thru’ policy where it only takes 90 seconds for a product to be served to the customer either on the restaurant table or over the counter if the purchase is a ‘take way.’ It is the speed of service delivery that makes McDonald’s to be the leading fast food restaurant in the city. This is in line with the company’s strategy of customer satisfaction through the speed of response (Njihia, J., 2019).

Cost reduction is one of the major objectives of the restaurant. McDonald’s is a master when it comes to reducing the cost of operations in the business. The fast food market is a highly competitive market that price wars are very common. In order to stay in the business, the restaurant has put in more effort in reducing the cost of production so that it sells the products at the lower prices but still make profits. Cost leadership is working for the restaurant because it has seen its main competitors making heavy losses under the normal market prices. McDonald’s is using the cost leadership to gain a competitive advantage in markets it operates. Cost reduction come as a result of increased automation, improved employee productivity as well as having reliable suppliers (Njihia, J., 2019).

Quality - McDonald’s operational policy puts quality first in its list of performance objectives. Quality refers to the conformance of a product or service to its specifications. The restaurant works on a belief that the customers deserve the best quality of a product so that they have less to complain about. If customers have nothing to complain about then, they will definitely be happy. A happy customer is

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likely to consume a product again. This in turn brings more revenue to the restaurant. Regarding operations, the restaurant ensures that the quality of processes and activities is all time high and hence not room for mistakes. The assumption here is that mistakes compromise the quality of a product as well as increasing the cost of production. Therefore, the restaurant cannot allow them to happen. (Njihia, J., 2019).

Flexibility -In the context of McDonald's business model, flexibility means the ability to change an operation in a certain way. In McDonald's restaurant, flexibility takes three forms. The first one is mix flexibility where an operation produces a wide variety of products from which the customers can choose from. The second is the product/service flexibility. Here, the restaurant comes up with new ideas that are incorporated into the making of a food product or services that customers find attractive. The third type is the volume flexibility the restaurant adjusts its output levels in order to cope up with the unexpected changes in demand. All forms of flexibility are undertaken independently. In is important to note that flexibility at McDonald's increases the speed of service delivery thereby saving time and money. (Njihia, J., 2019).

Corporate Objective Examples	Marketing Strategy Examples	How Do Goods and Services Qualify and Win Orders in the Marketplace? (Competitive Priorities)	Operations Strategy	
			Operating Design Choice Examples	Infrastructure Examples
Profitable Growth	Add worldwide 1,300 McDonald's restaurants and 150 new Partner Brand restaurants using company-owned and franchised stores	Competitive priorities tie the corporate and marketing strategies to the operational strategy ↔	• Flow shop process design • Standardized store design • Equipment design • Job design • Order-taking process • Capacity and facility size, location, and clusters	• Hiring process and criteria • First job training • Recognition and rewards • Training for the unexpected • Keeping it simple • Manager trainee program • Coaching and counseling • Teamwork • e-mail capabilities
Operational Excellence	Ideal store location, best training and employee well-being programs	• #1 Low prices • #2 Quick service (delivery speed) • #3 High service quality	• Global value chain coordination • Suppliers • Resource scheduling • Inventory placement and control • Distribution centers • Standardized operational and job procedures	• Operating plans and control system(s) • Shift management • Supplier relations and negotiation • Equipment maintenance • Online network capability • Distribution centers

3. Operations gaps of McDonalds

3.1 Gap in Supply Chain management

The entire McDonald's is a franchise business. This implies that the company normally enters into a rental agreement with the potential investors. The investors who want to be franchisees rent the restaurant building from McDonald's and then transacting business using the McDonald's brand name. This business model adopted by McDonald's is referred to as three-legged stool. As shown in the flow chart below, the stool consists of suppliers, McDonalds and the franchisees with each representing one leg. The logistics company facilitates the flow of supplies within this three-legged

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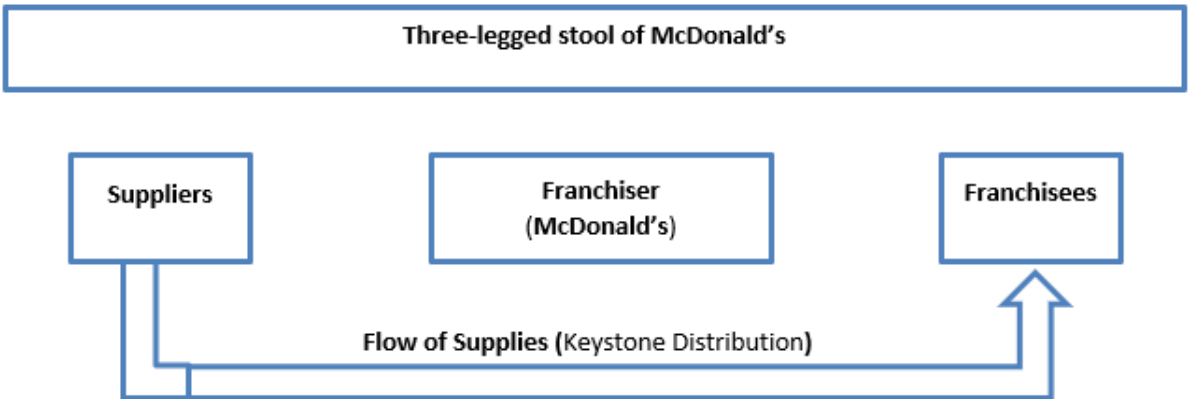
system. Over the years, the company has eliminated several bottlenecks that used to hinder the delivery of supplies on time and in required condition.



Transparency needs a long game; reputational problems don't mend fast. Few firms have faced such reputational challenges as McDonald's. In the 1990s, an ill-judged legal case, the McLibel trial, saw the corporation acting against a tiny environmental group in one of the longest civil cases in UK history, with terrible reputational consequences. The movies Super Size Me and Fast Food Nation cemented the view that the corporation was complicit in promoting bad health, bad environmental practice, and food that was just, well, disgusting. (hbr.org, 2015)

Faced with these challenges, McDonald's has not been idle. It has taken on its critics and made substantial changes to both its practices and its communication. Indeed, in the UK, the official government review of the horsemeat scandal, the Elliot Review, singles out the McDonald's supply chain for praise. In the United States, a series of documentary-style promo films with celebrity presenter Grant Imahara have tried to give customers a clear and unvarnished account of sourcing and production processes. You may still not like the firm or its products, but you can't deny it has made serious efforts.

3.2 Gap in Customer service

It is no doubt that McDonald's restaurant has been facing stiff competition from other fast food businesses and hence forced to expand its range of menu. The menu is normally divided into two categories, that is, for those customers who know what the menu contains and those that are new to it. When a customer walks into the McDonald's restaurant, the first stop is the counter where an order is placed. The till attendants apply two techniques in serving the customer either selling or suggesting technique. Selling technique is where the customer is asked whether s/he would like a large portion for a reduced price. On the other hand, the suggesting technique is where the customer is asked to spend a certain amount to get an extra item. A till attendant is expected to complete order within a minute of the standard service time. There is a standard sequence of serving the customer either over the counter or on the table. Cold drinks are normally the first followed by hot drinks, then fries and lastly burgers. The orders are processed on the first come first serve basis implying that the first customer on the queue is served first, followed by the second, and continues in that pattern.

4. Conclusion

Operations management is an important function in an organization since they concern the relationship with the company strategy. Operations management plays a key role in the development of a company strategy hence enhancing competitive advantage of the company. An example is the planning process that will assist an organization in minimizing costs while gaining advantage in competitiveness and cost. It is therefore necessary for an organization to manage its operations as a measure of boosting its organizational strategy. From the analysis of McDonald's operation strategy, it is evident that consistency and quality of services are order winners whereas speed, cost, efficiency

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and innovation are the order qualifiers. This has resulted in an enhanced market share and massive consumer buying power. McDonald is a market leader and a household name in the fast food industry. Its marketing strategy is very strong and it is placed under the supervision of the mother company irrespective of the outlet in the world. Their prices, customer services and quality are unparalleled.

5. Recommendations

5.1 Establish joint planning

McDonald's spends a lot of resources on operations relating to supply chain. Given the fact that Keystone Distribution is the link between the suppliers and franchisees, the company should institute a joint planning between the distributor and these other parties, so that cost of monitoring these activities reduces. This kind of arrangement ensures that the company does little in facilitating the flow of the supplies from the suppliers to the franchisees. This will be cost-effective in the long-run as suppliers will understand the sales forecast and standard procedures required for competitive business.

5.2 Design innovate food items

Since the largest composition of the McDonald's customers is young people, the company should invest in promotional activities that are more appealing to the youth. One of the reasons is that young people have changing tastes and preferences, and, therefore, they would only consume items that they consider trendy. However, key attention must be given to the prices because if those new products are sold at high prices, the customers would rather buy from the competitors. (Vignali. 2011)

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